



Air Transport Association

April 6, 1998

The Honorable John McHugh  
Chairman  
House Government Reform and  
Oversight Committee  
Subcommittee on the Postal Service  
U.S. House of Representatives  
B-349B Rayburn House Office Building  
Washington, D.C. 20515

Dear Congressman McHugh:

The attached are comments for the record of the Air Transport Association regarding H.R. 22, the Postal Reform Act of 1997.

We greatly appreciate the opportunity to comment for the record on your legislation. Please do not hesitate to contact me if I or anyone else at ATA can be of further assistance.

Sincerely,

Paul E. Pike  
Director, Federal Affairs

April 6, 1998

AIR TRANSPORT ASSOCIATION  
COMMENTS ON  
PROPOSED REVISION IN  
H.R. 22, THE POSTAL REFORM ACT OF 1997

ATA Member Airlines with direct interest in the international air transportation of mail are very concerned with the language in Section 702 of H.R. 22 which will provide the U.S. Postal Service unrestricted authority to contract for international air transportation for U.S. mail. People assume that the 1978 Airline Deregulation Act's reliance upon negotiations or competitive bidding to set domestic air transportation rates would unleash competitive forces and provide great efficiencies. Unhappily, the domestic contract conditions in place today do not support this assumption. This history raises serious questions with regard to the Postal Service's administrative ability to apply competitive principles to international mail under the broad language proposed in H.R. 22.

**BACKGROUND:**

Today, the Postal Service readily admits that it is unable to manage and plan domestic mail flows effectively under a competitive airline contract system. Their track record for managing domestic air transportation of mail in the first three years of a competitive contract system (1985 - 1989) was a dismal failure. To restore stability to the mail system, in April 1989 the industry and the Postal Service mutually agreed to return to a transportation procurement plan similar to the regulated system, i.e., uniform contract procedures and a uniform rate, but in this case, both elements are determined by the Postal Service. In 1994, the Postal Service contracted with an outside firm to determine the level of rates that should be offered to the airlines. The final report, in the opinion of the industry, had numerous methodological shortcomings. Use of this flawed methodology, over time, has resulted in the Postal Service gaining unfair advantage over the industry. This reflects a decisive advantage that the Postal Service enjoys; it retains complete control to change the service requirements while effectively suppressing the rates. The airlines must either accept or reject a contract. Acceptance of a Postal Service contract proposal without amendment or without input to the rates to be collected is not in the best interest of the airlines, and total rejection is not in the best interest of either party. This complete process is an antiquated approach to government contracting rather than the market-driven approach mandated by Congress in 1978.

**OBSERVATION:**

The airline industry is opposed to granting contract authority for international mail at this time. Our carriers feel that this international contract authority should be deferred until such time as the Postal Service can demonstrate its ability to enter into a truly competitive contracting system for international mail and domestic mail. What haunts us is the domestic experience and the prospect that it will be repeated in the international market place if this provision is included in the final version of H.R. 22. The public interest will not be advanced if a new but unworkable contracting regime replaces the existing DOT ratemaking authority.

## **PROVISIONS FOR INTERNATIONAL CONTRACTING**

*H.R.22, as proposed, is too vague and allows for far reaching interpretation and autonomy beyond what Congress may intend. If expanded contracting authority is granted, the airlines offer the following clarifications for consideration:*

**International Scope** - Section 702 should be specific in its language to limit this contract authority to only "international mail." This will prevent any misunderstanding in the future and will exclude foreign flag carrier participation in domestic mail contracts within the USA.

**Duty to Carry** - Current regulations state that a US air carrier with international route authority is obligated to transport US mail over its international routes. New legislative language must insure that the "duty to carry" provision shall no longer apply to international mail.

**Military Mail Traffic** - Legislation must recognize provisions for the role of the Department of Defense in the international mail market. Currently, a significant amount of the international mail moving to and from the U.S. is DOD military mail. Prior to any change to this legislation, the Office of Secretary of Defense (ADUSD/Trans Policy), U.S. Transportation Command and Military Postal Service should be requested to define the extent of authority the Postal Service would have over the transportation of the DOD mail traffic. At a minimum, H.R.22 should incorporate language that recognizes the DOD's policy for the movement of military mail.

**Level Playing Field** - Congress should insure that new contract authority provides a reasonable level playing field for U.S. air carriers. Originating mail volumes from the U.S. are far greater than volumes dispatched to the U.S. by foreign postal administrations. This legislation is likely to penalize U.S. carriers, as reciprocal opportunities are extremely disproportionate. For example, many foreign nations do not offer U.S. air carriers the opportunity to transport their national mail. Therefore, it would be appropriate that such governments' air carriers not be permitted to participate in the transport of U.S. mail in any markets where U.S. flag service operates. Also, many international air carriers receive various types of subsidies from their governments or are partially owned by the government. With such financial backing, these carriers are in a keen position to offer mail rates below market value or otherwise capitalize on their governments' involvement. Provisions for exclusion of such carriers, based on the well-recognized principle of reciprocity, seems reasonable.

**True Competitive Market** - Legislation must be very clear that contracting authority for international mail will be conducted by **competitive bidding** and that the Postal Service shall have no authority to set the rates.

**SUMMARY:** -The Postal Service is a very large and valuable customer with significant buying power; however, its approach to domestic airline contracting thus far has not been, in the true sense, competitive. For this reason, the airline industry firmly believes that until the Postal Service can demonstrate its ability to function in a competitive arena, contracting authority should not be expanded. If new authority is granted to the Postal Service, the legislation must be absolutely clear in the safeguards that it establishes.

(4/98)